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FISCAL IMPACT STATEMENT

LS 6685 | **NOTE PREPARED:** Feb 18, 2014
BILL NUMBER: HB 1180 | **BILL AMENDED:** Jan 29, 2014

SUBJECT: Various Commercial Vehicle Matters.

FIRST AUTHOR: Rep. Frye R | **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Merritt

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) This bill has the following provisions:

(1) Makes various changes concerning the administration of the tax credit for natural gas-powered vehicles.
(2) Excludes natural gas products from the definition of alternative fuel.
(3) Excludes alternative fuels from the definition of special fuel.
(4) Specifies that propane and butane are alternative fuels.
(5) Establishes an alternative fuel decal system.
(6) Provides that the road tax credit for motor carriers consuming compressed natural gas must be claimed on a quarterly basis.
(7) Requires the Department of State Revenue (DOR) to register commercial fleets consisting of at least 25 vehicles, including at least one vehicle having a declared gross vehicle weight exceeding 26,000 pounds. (Current law allows the department to register fleets of at least 25 vehicles that all have declared gross vehicle weights exceeding 26,000 pounds.)
(8) Provides that the operator of a motor vehicle using compressed gas as a motor fuel is subject to the same nighttime operating requirements outside the corporate limits of a municipality as other vehicles and is permitted to carry flares or red-burning fuses.
(9) Transfers the registration of commercial vehicles with a declared gross vehicle weight of at least 16,000 pounds from the Bureau of Motor Vehicles to the DOR.

Effective Date: (Amended) January 1, 2014 (retroactive); July 1, 2014; January 1, 2015.

Summary of NET State Impact: The bill makes several changes to the taxation of alternative fuels and special fuels. A summary of the estimated FY 2015 state revenue impacts is provided in the following table.

Estimated Changes from HEA 1324-2013 Estimates to New Provisions				
	Excise (Special Fuel) Tax Revenue	Natural Gas Vehicle Tax Credit	Alternative Fuel Decal Revenue	Total
Est'd 2015 for HEA 1324-2013	$3 M	($3 M)	$0	--
2015 (New)	$0.9 M	($0.74 M)	$0.14 M	$0.30 M
Change From Previous Est.	**($2.1 M)**	**$2.26 M**	**$0.14 M**	**$0.30 M**

Explanation of State Expenditures: (Revised) *Department of State Revenue (DOR):* DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes in the bill. As well, DOR will now be responsible for the registration of certain commercial vehicles. The DOR's current level of resources should be sufficient to implement this change.

State Budget Agency: The State Budget Agency will be required to estimate expected revenue from the sales tax on natural gas products each year. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: *Natural Gas-Powered Vehicle Income Tax Credit:* The bill does four things to the natural gas-powered vehicle income tax credit:

(1) Limits the tax credit to purchases or leases from Indiana dealers;
(2) Requires that those who wish to claim the credit must apply for and be approved for the credit by the DOR prior to claiming the credit on their tax return(s);
(3) The total amount of tax credits per year may not exceed the lesser of $3 M or revenue attributable to the imposition of the gross retail and use tax on transactions involving the purchase of natural gas products to fuel a motor vehicle; and
(4) Makes the tax credit available to all motor vehicles powered by natural gas. Previously, the tax credit was available only to vehicles used to provide public transportation for persons or property.

The only change to the tax credit that has a fiscal impact is that it may be limited to anticipated sales tax revenue on natural gas for transportation. Instead of $3 M in tax credits per year (as was estimated for HEA 1324-2013, when the tax credit was implemented), it is possible that credits awarded will not exceed $0.74 M in FY 2015 and $0.9 M in FY 2016 without unexpected significant increases in purchases of natural gas for transportation in Indiana in those years. Anecdotal information from DOR suggests that these estimates may be conservative, and the State Budget Agency could choose to increase the estimated sales tax revenue from natural gas products, thereby increasing the available tax credits.

(Revised) *Alternative Fuels and Alternative Fuel Decals:* The bill removes natural gas products (compressed natural gas/CNG and liquified natural gas/LNG) from the definition of alternative fuels, leaving alternative fuels defined solely as butane and propane. This language exempts propane/butane from the special fuels excise tax, which will result in an expected loss of revenue of approximately $2.1 M in FY 2015 and $1.3 M in FY 2016 (based on estimates from HEA 1324-2013). The bill also re-institutes a formerly existing alternative fuel decal law (repealed in HEA 1324-2013) on propane and butane that is expected to generate revenue of approximately $143,000 per year, according to DOR.

As part of the alternative fuel decals, the bill institutes an alternative fuel temporary trip permit, that may be purchased from a licensed propane dealer to alternative fuel vehicles registered outside of Indiana that operate on public highways in Indiana. These temporary trip permits are for 72-hour trips and will cost $5.50 per trip. In order for propane dealers to issue the permits, they must pay a one-time $50 propane dealer license.

In FY 2013, alternative fuel decals earned revenue of roughly $0.14 M. The removal of CNG/LNG from the decal program (previously natural gas vehicles were included in the decal program), as well as the inclusion of passenger vehicles and the trip permits are expected to net roughly the same amount as in previous years.

The bill requires that the fees for alternative fuel decals are to be adjusted annually by the DOR based on the consumer price index. A formula is provided to assist DOR with these adjustments. According to the bill, no fee for alternative fuel decals may be raised in any year if the result of the formula increase is $5 or less.

Compressed Natural Gas Road Tax Credit: This provision aligns the basis of the Road Tax Credit with the taxpayer's Motor Carrier Fuel Tax liability period. Carriers who wish to claim this credit must claim it on a quarterly basis. This provision will likely have no fiscal impact.

Change to Definition of Commercial Fleet: The bill changes the definition of a commercial fleet to include those fleets with at least 25 vehicles, including at least one vehicle having a declared gross vehicle weight exceeding 26,000 pounds. According to DOR, this will increase the total number of trucks defined as part of a commercial fleet from 10,000 to roughly 110,000. The DOR reports the increase in the number of vehicles that can register as a fleet is not expected to have any fiscal impact.

Nighttime Operating Requirements for CNG Vehicles: By making compressed gas vehicles subject to the same nighttime regulations as motor trucks, passenger buses, and truck-tractors, this bill could decrease the number of Class C infractions in the state. No information was available regarding the number of citations issued to natural gas vehicles for operating with improper equipment.

The maximum judgment for a Class C infraction is $500, which would be deposited in the state General Fund. However, any revenue loss is likely to be small.

Explanation of Local Expenditures:

Explanation of Local Revenues: If fewer court actions are filed where a judgment would have been entered, local governments would receive less revenue from court fees. However, any revenue loss is likely to be small.

State Agencies Affected: DOR, BMV, INDOT, State Budget Agency.

Local Agencies Affected: Trial courts, local law enforcement agencies.

Information Sources: Kellie Walsh, Greater Indiana Clean Cities Coalition; Jim Poe, DOR, jpoe@dor.in.gov; Iona Hallstrom, Indiana Department of Revenue, ihallstrom@dor.in.gov; Indiana Department of Revenue Intrastate Motor Carrier Information Handbook; National Energy Policy Institute

Working Paper - *What Set of Conditions Would Make the Business Case to Convert Heavy Trucks to Natural Gas? - a Case Study (http://nepinstitute.org/)*; U.S. Energy Information Administration (www.eia.gov/); Alternative Fuels Data Center (www.afdc.energy.gov/); Nathaniel Day, Indiana Department of Administration, 317-232-3030; *US Department of Energy Clean Cities Alternative Fuel Price Report, October 2012;* Energy Report - LPG, Texas Comptroller of Public Accounts (http://www.window.state.tx.us/specialrpt/energy/nonrenewable/lpg.php)

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